

CITY OF SIOUX RAPIDS

Independent Auditor's Report
Financial Statements,
Supplemental Information
And Findings

JUNE 30, 2004

DAVID A. MASKE
Certified Public Accountant
Spencer, Iowa

CITY OF SIOUX RAPIDS

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CITY OF SIOUX RAPIDS

CITY OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Kenneth Schau	Mayor	December 31, 2005
James Wise	Council Member	December 31, 2005
Nick Bartley	Council Member	December 31, 2005
David Althaus	Council Member	December 31, 2007
Gary Isaacson	Council Member	December 31, 2007
David Rassler	Council Member	December 31, 2007
Virginia Moffitt	City Clerk	December 31, 2004
Beverly Richardson	Treasurer	December 31, 2004
Brad Howe	City Attorney	December 31, 2004

DAVID A. MASKE

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Sioux Rapids
Sioux Rapids, Iowa

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sioux Rapids, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. My responsibility is to express opinions on these financial statements based on my audit.

Except as described in the following paragraph, I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits, contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2003.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2003, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sioux Rapids, as of June 30, 2004 and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As discussed in Note 8 during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences.

In accordance with Government Auditing Standards, I have also issued my reports dated December 3, 2004 on my consideration of the City of Sioux Rapids' internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 3 through 6 and 13 are not required parts of the basic financial statements, but are supplementary information required by the governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Sioux Rapids' basic financial statements. Other supplementary information included in Schedules 1 through 3, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applies in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements as a whole.

DAVID A. MASKE
Certified Public Accountant

December 3, 2004
Spencer, Iowa

CITY OF SIOUX RAPIDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004

The City of Sioux Rapids provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2004 FINANCIAL HIGHLIGHTS

- Receipts of the City-wide activities were approximately \$565,000 for fiscal year 2004.
- Disbursements were approximately \$577,000 for fiscal year 2004.
- The City's total cash basis net assets decreased 3%, or approximately \$12,000 from June 30, 2003 to June 30, 2004.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The City's Financial Statement consists of a Statement of Receipts, Disbursements and Cash Balances. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the City's funds.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Receipts, Disbursements and Changes in Cash Balances reports information which helps answer this question.

The Statement of Receipts, Disbursements and Changes in Cash Balances presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the Water Fund, Garbage Fund, and Sewer Fund, considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$37,401 to \$83,672. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	<u>Year Ended</u> <u>June 30, 2004</u>
Receipts and Transfers:	
General Receipts	
Property Tax	\$ 163,327
Local Option Sales Tax.....	58,569
Intergovernmental	73,013
Use of Money and Property	932
Licenses and Permits	2,188
Other General Receipts	23,877
Net Transfers	<u>23,335</u>
Total Receipts and Transfers	<u>\$ 345,241</u>
Disbursements:	
Public Safety.....	\$ 78,710
Public Works	73,575
Health and Social Services.....	4,000
Culture and Recreation.....	57,619
Community and Economic Development	2,214
General Government	62,740
Capital Projects	<u>20,112</u>
Total Disbursements	<u>\$ 298,970</u>
Increase (Decrease) in Cash Basis Net Assets	\$ 46,271
Cash Basis Net Assets - Beginning of Year	<u>37,401</u>
Cash Basis Net Assets - End of Year.....	<u>\$ 83,672</u>

Changes in Cash Basis Net Assets of Business Type Activities

	<u>Year Ended</u> <u>June 30, 2004</u>
Receipts:	
Operating Receipts:	
Water.....	\$ 88,641
Garbage	72,617
Sewer	40,338
Interest.....	4,245
Total	<u>\$ 205,841</u>
Disbursements:	
Operating Disbursements:	
Water.....	\$ 95,047
Garbage	85,441
Sewer	44,770
Debt Service	15,581
Net Transfers Out	23,335
Total	<u>\$ 264,174</u>
Net Change in Cash Balance	\$ (58,333)
Cash Basis Net Assets - Beginning of Year	<u>379,930</u>
Cash Basis Net Assets - End of Year	<u>\$ 321,597</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Sioux Rapids completed the year, its governmental funds reported a combined fund balance of \$83,672, an increase of \$46,271 over last year's total of \$37,401. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$47,908 from the prior year to \$47,605.
- The Road Use Tax Fund cash balance decreased by \$1,261 to \$7,827 during the fiscal year.
- The Local Option Sales Tax Fund cash balance did not change during the year and remained at \$17,033.
- The Debt Service Fund cash balance decreased by \$376 to \$11,747 during the year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$10,221 to \$168,747.
- The Garbage Fund cash balance decreased by \$24,368 to \$75,362.
- The Sewer Fund cash balance decreased by \$23,744 to \$77,488.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City over-expended its budget. The City had sufficient cash balances to absorb these additional expenditures.

DEBT ADMINISTRATION

A comparison of the City's debt at June 30, 2004 to June 30, 2003 follows:

	<u>Year Ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
G.O. Bonds and Notes	\$ 46,252	\$ 63,036
Sewer Revenue Notes	-0-	15,000
Total	<u>\$ 46,252</u>	<u>\$ 78,036</u>

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Virginia Moffitt, City Clerk, Sioux Rapids, Iowa.

BASIC FINANCIAL STATEMENTS

CITY OF SIOUX RAPIDS
STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2004

		<div>-----Program Receipts-----</div> <div>Operating Grants, Contributions, and Restricted Interest</div>			<div>Net (Disbursements) Receipts and Changes --- in Cash Basis Net Assets ---</div>		
	<u>Disbursements</u>	<u>Charges for Services</u>		<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>	
Functions / Programs:							
Governmental Activities:							
Public Safety	\$ 78,710	\$ -0-	\$ 390	\$ (78,320)	\$ -0-	\$ (78,320)	
Public Works	73,575	-0-	59,967	(13,608)	-0-	(13,608)	
Health and Social Services	4,000	-0-	-0-	(4,000)	-0-	(4,000)	
Culture and Recreation	57,619	11,980	6,916	(38,723)	-0-	(38,723)	
Community and Economic Development	2,214	-0-	-0-	(2,214)	-0-	(2,214)	
General Government	62,740	-0-	7,188	(55,552)	-0-	(55,552)	
Debt Service	20,112	-0-	-0-	(20,112)	-0-	(20,112)	
Total Governmental Activities	<u>\$ 298,970</u>	<u>\$ 11,980</u>	<u>\$ 74,461</u>	<u>\$ (212,529)</u>	<u>\$ -0-</u>	<u>\$ (212,529)</u>	
Business Type Activities:							
Water	\$ 95,047	\$ 88,641	\$ 1,596	\$ -0-	\$ (4,810)	\$ (4,810)	
Garbage	85,441	72,617	969	-0-	(11,855)	(11,855)	
Sewer	60,351	40,338	1,680	-0-	(18,333)	(18,333)	
Total Business Type Activities	<u>\$ 240,839</u>	<u>\$ 201,596</u>	<u>\$ 4,245</u>	<u>\$ -0-</u>	<u>\$ (34,998)</u>	<u>\$ (34,998)</u>	
TOTAL	<u>\$ 539,809</u>	<u>\$ 213,576</u>	<u>\$ 78,706</u>	<u>\$ (212,529)</u>	<u>\$ (34,998)</u>	<u>\$ (247,527)</u>	
General Receipts:							
Property Tax Levied for:							
General Purposes				\$ 143,591	\$ -0-	\$ 143,591	
Debt Service				19,736	-0-	19,736	
Local Option Sales Tax				58,569	-0-	58,569	
Grants and Contributions Not Restricted to Specific Purpose				1,130	-0-	1,130	
Unrestricted Interest on Investments				932	-0-	932	
Miscellaneous				11,507	-0-	11,507	
Transfers				23,335	(23,335)	-0-	
Total General Receipts and Transfers				<u>\$ 258,800</u>	<u>\$ (23,335)</u>	<u>\$ 235,465</u>	
Change in Cash Basis Net Assets				\$ 46,271	\$ (58,333)	\$ (12,062)	
Cash Basis Net Assets – Beginning of Year				37,401	379,930	417,331	
Cash Basis Net Assets – End of Year				<u>\$ 83,672</u>	<u>\$ 321,597</u>	<u>\$ 405,269</u>	
Cash Basis Net Assets:							
Restricted:							
Streets				\$ 7,827	\$ -0-	\$ 7,827	
Debt Service				11,747	-0-	11,747	
Unrestricted				64,098	321,597	385,695	
Total Cash Basis Net Assets				<u>\$ 83,672</u>	<u>\$ 321,597</u>	<u>\$ 405,269</u>	

CITY OF SIOUX RAPIDS
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	----- Special Revenue -----					
	General	Road Use Tax	Local Option Sales Tax	Debt Service	Total	
Receipts:						
Property Tax	\$ 143,591	\$ -0-	\$ -0-	\$ 19,736	\$ 163,327	
Other City Tax.....	-0-	-0-	58,569	-0-	58,569	
Licenses and Permits	2,188	-0-	-0-	-0-	2,188	
Use of Money and Property.....	760	-0-	172	-0-	932	
Intergovernmental	13,046	59,967	-0-	-0-	73,013	
Miscellaneous	<u>23,847</u>	<u>30</u>	<u>-0-</u>	<u>-0-</u>	<u>23,877</u>	
Total Receipts	\$ 183,432	\$ 59,997	\$ 58,741	\$ 19,736	\$ 321,906	
Disbursements:						
Operating:						
Public Safety	\$ 78,710	\$ -0-	\$ -0-	\$ -0-	\$ 78,710	
Public Works	5,215	68,360	-0-	-0-	73,575	
Health and Social Services	4,000	-0-	-0-	-0-	4,000	
Culture and Recreation.....	57,619	-0-	-0-	-0-	57,619	
Community and Economic Development.....	2,214	-0-	-0-	-0-	2,214	
General Government	62,740	-0-	-0-	-0-	62,740	
Debt Service	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>20,112</u>	<u>20,112</u>	
Total Disbursements	\$ 210,498	\$ 68,360	\$ -0-	\$ 20,112	\$ 298,970	
Excess (Deficiency) of Receipts over Disbursements	\$ (27,066)	\$ (8,363)	\$ 58,741	\$ (376)	\$ 22,936	
Other Financing Sources (Uses):						
Operating Transfers In (Out)	<u>74,974</u>	<u>7,102</u>	<u>(58,741)</u>	<u>-0-</u>	<u>23,335</u>	
Net Changes in Cash Balances	\$ 47,908	\$ (1,261)	\$ -0-	\$ (376)	\$ 46,271	
Cash Balances – Beginning of Year (Deficit)	<u>(843)</u>	<u>9,088</u>	<u>17,033</u>	<u>12,123</u>	<u>37,401</u>	
Cash Balances – End of Year	<u>\$ 47,065</u>	<u>\$ 7,827</u>	<u>\$ 17,033</u>	<u>\$ 11,747</u>	<u>\$ 83,672</u>	
Cash Basis Fund Balances:						
Reserved:						
Debt Service	\$ -0-	\$ -0-	\$ -0-	\$ 11,747	\$ 11,747	
Unreserved:						
General Fund.....	47,065	-0-	17,033	-0-	64,098	
Special Revenue Fund	<u>-0-</u>	<u>7,827</u>	<u>-0-</u>	<u>-0-</u>	<u>7,827</u>	
Total Cash Basis Fund Balances	\$ 47,065	\$ 7,827	\$ 17,033	\$ 11,747	\$ 83,672	

CITY OF SIOUX RAPIDS
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Water</u>	<u>Garbage</u>	<u>Sewer</u>	<u>Sewer Sinking</u>	<u>Sewer Reserve</u>	<u>Deposits</u>	<u>Total</u>
Operating Receipts:							
Charges for Services	\$ 84,945	\$ 72,617	\$ 39,988	\$ -0-	\$ -0-	\$ -0-	\$ 197,550
Sales Tax	3,696	-0-	-0-	-0-	-0-	-0-	3,696
Deposits	-0-	-0-	-0-	-0-	-0-	350	350
Total Operating Receipts	\$ 88,641	\$ 72,617	\$ 39,988	\$ -0-	\$ -0-	\$ 350	\$ 201,596
Operating Disbursements:							
Business Type Activities:							
Personal Services.....	\$ 19,012	\$ -0-	\$ 15,293	\$ -0-	\$ -0-	\$ -0-	\$ 34,305
Contractual Services	3,452	65,441	3,452	-0-	-0-	-0-	72,345
Services and Commodities	50,458	-0-	23,800	-0-	-0-	-0-	74,258
Capital Outlay	22,125	20,000	2,125	-0-	-0-	-0-	44,250
Deposit Refund.....	-0-	-0-	-0-	-0-	-0-	100	100
Total Operating Disbursements	\$ 95,047	\$ 85,441	\$ 44,670	\$ -0-	\$ -0-	\$ 100	\$ 225,258
Excess (Deficiency) of Operating Receipts over Operating Disbursements	\$ (6,406)	\$ (12,824)	\$ (4,682)	\$ -0-	\$ -0-	\$ 250	\$ (23,662)
Non-Operating Receipts (Disbursements):							
Debt Service	\$ -0-	\$ -0-	\$ -0-	\$ (15,581)	\$ -0-	\$ -0-	\$ (15,581)
Interest on Investments.....	1,596	969	1,411	189	-0-	80	4,245
Total	\$ 1,596	\$ 969	\$ 1,411	\$ (15,392)	\$ -0-	\$ 80	\$ (11,336)
Excess (Deficiency) of Receipts over Disbursements	\$ (4,810)	\$ (11,855)	\$ (3,271)	\$ (15,392)	\$ -0-	\$ 330	\$ (34,998)
Net Operating Transfers In (Out)	(5,411)	(12,513)	(5,036)	14,625	(15,000)	-0-	(23,335)
Net Change in Cash Balances	\$ (10,221)	\$ (24,368)	\$ (8,307)	\$ (767)	\$ (15,000)	\$ 330	\$ (58,333)
Cash Balances – Beginning of Year	178,968	99,730	76,725	767	15,000	8,740	379,930
Cash Balances – End of Year	\$ 168,747	\$ 75,362	\$ 68,418	\$ -0-	\$ -0-	\$ 9,070	\$ 321,597
Cash Basis Fund Balances:							
Unreserved	\$ 168,747	\$ 75,362	\$ 68,418	\$ -0-	\$ -0-	\$ 9,070	\$ 321,597

CITY OF SIOUX RAPIDS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Sioux Rapids is a political subdivision of the State of Iowa located in Buena Vista County. It operates under the Home Rule provisions of the Constitution of Iowa and under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services. The City also provides water, sewer, and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Sioux Rapids has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Sioux Rapids has no component units.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for local option sales tax received.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Garbage Fund accounts for the operation of the City's solid waste system.

C. Measurement Focus and Basis of Accounting

The City of Sioux Rapids maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public safety, business type activities, and community and economic development functions.

NOTE 2 - DEPOSITS AND POOLED INVESTMENTS:

The City's deposits at June 30, 2004 were entirely covered by Federal depository insurance, or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments at June 30, 2004; however the City's time deposits were as follows:

Certificates of Deposits	\$	158,000
Money Market Accounts.....	\$	132,033

NOTE 3 - BONDS AND NOTES PAYABLE:

Annual debt service requirements to maturity for general obligation bonds and notes are as follows:

<u>YEAR</u> <u>ENDING</u> <u>JUNE 30,</u>	<u>GENERAL OBLIGATION</u> <u>BONDS AND NOTES</u>	
	<u>PRINCIPAL</u>	<u>INTEREST</u>
2005	\$ 17,745	\$ 2,366
2006	18,762	1,349
2007	9,745	275
TOTAL	<u>\$ 46,252</u>	<u>\$ 3,990</u>

NOTE 4 - PENSION AND RETIREMENT BENEFITS:

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a costsharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 503069117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2004, was \$5,706, equal to the required contribution for the year.

NOTE 5 – COMPENSATED ABSENCES:

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2004 is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation.....	\$ <u>2,590</u>

This liability has been computed based on rates of pay as of June 30, 2004.

As sick leave is not payable upon termination, retirement or death, the minimum accumulated sick leave is not presented as part of these financial statements.

NOTE 6 – RISK MANAGEMENT:

The City of Sioux Rapids is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage.

NOTE 7 – INTERFUND TRANSFERS:

The detail of interfund transfers for the year ended June 30, 2004 are as follows:

<u>Transfers to:</u>	<u>Transfers From:</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option Sales Tax	\$ <u>58,741</u>
General	Proprietary:	
	Garbage	\$ 12,513
	Water	<u>3,720</u>
		\$ <u>16,233</u>
		\$ <u>74,974</u>
Road Use Tax	Proprietary:	
	Water	\$ 1,691
	Sewer	<u>5,411</u>
		\$ <u>7,102</u>
Sewer Sinking	Sewer Reserve	\$ <u>15,000</u>
Sewer	Sewer Sinking	\$ <u>375</u>
	TOTAL	\$ <u>97,451</u>

NOTE 8 – ACCOUNTING CHANGE

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statement reports the City's governmental and business type activities.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SIOUX RAPIDS
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES –
BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2004

	<u>Governmental</u> <u>Funds</u> <u>Actual</u>	<u>Proprietary</u> <u>Funds</u> <u>Actual</u>	<u>Less Funds</u> <u>Not Required To</u> <u>Be Budgeted</u>	<u>Net</u>	<u>Budgeted</u> <u>Amounts</u>	<u>Budget</u> <u>to Net</u> <u>Variance</u>
Receipts:						
Property Tax	\$ 163,327	\$ -0-	\$ -0-	\$ 163,327	\$ 155,609	\$ 7,718
Other City Tax.....	58,569	-0-	-0-	58,569	64,565	(5,996)
Licenses and Permits	2,188	-0-	-0-	2,188	2,875	(687)
Use of Money and Property.....	932	4,245	-0-	5,177	12,050	(6,873)
Intergovernmental.....	73,013	-0-	-0-	73,013	80,075	(7,062)
Charges for Services	-0-	201,596	-0-	201,596	214,500	(12,904)
Miscellaneous	23,877	-0-	-0-	23,877	2,500	21,377
Total Receipts	<u>\$ 321,906</u>	<u>\$ 205,841</u>	<u>\$ -0-</u>	<u>\$ 527,747</u>	<u>\$ 532,174</u>	<u>\$ (4,427)</u>
Disbursements:						
Public Safety.....	\$ 78,710	\$ -0-	\$ -0-	\$ 78,710	\$ 64,806	\$ (13,904)
Public Works.....	73,575	-0-	-0-	73,575	111,895	38,320
Health and Social Services	4,000	-0-	-0-	4,000	4,000	-0-
Culture and Recreation	57,619	-0-	-0-	57,619	68,230	10,611
Community and Economic Development	2,214	-0-	-0-	2,214	-0-	(2,214)
General Government	62,740	-0-	-0-	62,740	69,310	6,570
Debt Service	20,112	-0-	-0-	20,112	20,112	-0-
Business Type Activities	-0-	240,839	-0-	240,839	193,286	(47,553)
Total Disbursements	<u>\$ 298,970</u>	<u>\$ 240,839</u>	<u>\$ -0-</u>	<u>\$ 539,809</u>	<u>\$ 531,639</u>	<u>\$ (8,170)</u>
Excess (Deficiency) of Receipts Over Disbursements	\$ 22,936	\$ (34,998)	\$ -0-	\$ (12,062)	\$ 535	\$ (12,597)
Other Financing Sources, Net	<u>23,335</u>	<u>(23,335)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Excess (Deficiency) of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	\$ 46,271	\$ (58,333)	\$ -0-	\$ (12,062)	\$ 535	\$ (12,597)
Balance – Beginning of Year	<u>37,401</u>	<u>379,930</u>	<u>-0-</u>	<u>417,331</u>	<u>371,266</u>	<u>46,065</u>
Balance – End of Year	<u>\$ 83,672</u>	<u>\$ 321,597</u>	<u>\$ -0-</u>	<u>\$ 405,269</u>	<u>\$ 371,801</u>	<u>\$ 33,468</u>

CITY OF SIOUX RAPIDS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
JUNE 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the Public Safety, Community and Economic Development, and Business Type Activities Functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF SIOUX RAPIDS
SCHEDULE OF INDEBTEDNESS
FOR THE YEAR ENDED JUNE 30, 2004

OBLIGATION	DATE OF ISSUE	INTEREST RATES	AMOUNT ORIGINALLY ISSUED	BALANCE BEGINNING OF YEAR	ISSUED DURING YEAR	REDEEMED DURING YEAR	BALANCE END OF YEAR	INTEREST PAID	INTEREST DUE AND UNPAID
General Obligation Bonds:									
Capital Loan Note	8/30/96	5.6446%	\$ 150,629	<u>\$ 63,036</u>	<u>\$ -0-</u>	<u>\$ 16,784</u>	<u>\$ 46,252</u>	<u>\$ 3,328</u>	<u>\$ -0-</u>
Revenue Notes:									
Sewer	10/1/88	7.0-7.80%	\$ 150,000	<u>\$ 15,000</u>	<u>\$ -0-</u>	<u>\$ 15,000</u>	<u>\$ -0-</u>	<u>\$ 581</u>	<u>\$ -0-</u>

CITY OF SIOUX RAPIDS
BOND AND NOTE MATURITIES
JUNE 30, 2004

GENERAL OBLIGATION CAPITAL NOTES

YEAR ENDING JUNE 30,	INTEREST RATE	AMOUNT
2005	5.6446%	\$ 17,745
2006	5.6446%	18,762
2007	5.6446%	<u>9,745</u>
TOTAL		<u>\$ 46,252</u>

See accompanying independent auditor's report

CITY OF SIOUX RAPIDS
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS

	<u>2004</u>
Receipts:	
Property Tax	\$ 163,327
Other City Tax	58,569
Licenses and Permits	2,188
Use of Money and Property	932
Intergovernmental	73,013
Miscellaneous	<u>23,877</u>
Total	<u>\$ 321,906</u>
Disbursements:	
Operating:	
Public Safety	\$ 78,710
Public Works	73,575
Health and Social Services	4,000
Culture and Recreation	57,619
Community and Economic Development	2,214
General Government	62,740
Debt Service	<u>20,112</u>
Total	<u>\$ 298,970</u>

See accompanying independent auditor's report.

DAVID A. MASKE

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Honorable Mayor and
Members of the City Council
City of Sioux Rapids
Sioux Rapids, Iowa

I have audited the financial statements of the City of Sioux Rapids, Iowa, as of and for the year ended June 30, 2004, and have issued my report thereon dated December 3, 2004. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Sioux Rapids' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Sioux Rapids' internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Sioux Rapids' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe item 04-I-A is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Sioux Rapids and other parties whom the City of Sioux Rapids may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Sioux Rapids during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

DAVID A. MASKE
Certified Public Accountant

December 3, 2004

CITY OF SIOUX RAPIDS

SCHEDULE OF FINDINGS FOR THE YEAR ENDED JUNE 30, 2004

PART I - FINDINGS RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- 04-I-A **Segregation of Duties** – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – I realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response accepted.

PART II - OTHER FINDINGS RELATED TO STATUTORY REPORTING:

- 04-II-A **Official Depositories** – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

- 04-II-B **Certified Budget** – Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the Public Safety, Business Type Activities, and Community and Economic Development functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will do so in the future, if applicable.

Conclusion - Response accepted.

- 04-II-C **Questionable Disbursements** – I noted no disbursements that did not meet the requirements of public purpose as defined in the Attorney General's Opinion dated April 25, 1979.

- 04-II-D **Travel Expense** - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- 04-II-E **Business Transactions** - There were no business transactions between the City and City officials or employees noted.

- 04-II-F **Bond Coverage** - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

- 04-II-G **Council Minutes** - No transactions were found that I believe should have been approved in the Council minutes but were not.

- 04-II-H **Revenue Notes** - The City was in compliance with the requirements of its revenue notes.

- 04-II-I **Deposits and Investments** - I noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policies.